

OLYMPIA, WASHINGTON

October 8, 2003

The State Finance Committee met in a special meeting after notice duly given to the press and radio of Thurston County.

Present: Michael J. Murphy, State Treasurer
Gary Locke, Governor
Brad Owen, Lieutenant Governor

Also Present: Allan J. Martin, Office of the State Treasurer
Tom Morrill, Office of the Attorney General
Svein Braseth, Office of the State Treasurer
Hugh Spitzer, Foster Pepper & Shefelman
Rob Fukai, Department of General Administration
Vicki Cox, Office of the State Treasurer
Susan Melvin, Office of the State Treasurer
Shad Pruitt, Office of the State Treasurer
Mike Roberts, Office of Financial Management
Charlie Gavigan, House of Representatives
Jerry Long, House Transportation Committee
Cindy Edens, Wright Runstad & Co.
Margie Smitch, Office of Attorney General
Cynthia Weed, Preston Gates & Ellis
Craig Donald, Department of General Administration
Grant Fredricks, Department of General Administration
Brad Shannon, Press
Barton Potter, Office of the State Treasurer
Kristi Wolgamot, Office of the State Treasurer
Suzanne Coit, Office of the State Treasurer
Nancy Notter, Office of the State Treasurer
Mark Lahaie, Department of General Administration
Bob Campbell, Lehman Brothers
Amy Arnis, Department of Transportation

Chairman Murphy said: (sound of gavel hitting wood) The regularly scheduled meeting of the State Finance Committee will come to order. Did you want this read into the record (referring to letter)?

Governor Locke said: Did you want to do the minutes of yesterday? Or we don't have it?

Lt. Governor Owen said: It doesn't matter.

Chairman Murphy said: We don't have it.

Governor Locke said: Oh, okay.

Lt. Governor Owen said: Just, did it. They called me, I said you just need to send, send a letter, you know, so, so they sent a letter.

Chairman Murphy said: Okay. Um, the first and only item for consideration today is Resolution 988 regarding a financing contract to be entered into by the Department of General Administration with respect to the Tumwater Office Building. And, just for the sake of the audience, there is a letter from Richard DeBolt, Minority Leader and Gary Alexander, State Representative, ah, directed to me as the Chair of the State Finance Committee urging support of the 63-20 financing and we'll make that part of the record.

Governor Locke said: Move that we adopt Resolution 988.

Lt. Governor Owen said: Second.

Chairman Murphy said: It's been regularly moved and seconded to adopt Resolution 988. And yesterday's meeting, we had discussions about various scenarios and recommendations on numbers, etc., etc., um, I spent a couple of hours this afternoon trying to, making sure I was able to back into the numbers. And I was able to, working off of the comparison from OFM of the leases, etc., etc., and today, my expectation was that we would be voting on a resolution with a cap that we discussed yesterday because that number was blank before. Do you remember that? And the number that we derived, that, as I understood, maybe, maybe I misunderstood, we're, we're attempting to transcribe the record from yesterday. We've going to have a verbatim transcript of that meeting. But the total for funds was estimated at \$57,928,326. And I seem to recall Mr. Fukai offering testimony that indicated that that number was a worst case scenario and I believe, Governor Locke, you echoed that comment? Is that accurately stated?

Governor Locke said: I'm not sure exactly what you're referring to, so.

Chairman Murphy said: Well, when we had discussions about the scenarios that we put together and the scenarios that we had derived from General Administration work, we were under the impression that it was slightly under fifty-eight million dollars. The resolution before you today has authority given to Tumwater Properties with a not to exceed sixty-three million dollars. I believe that's about \$5.1 million greater than the number we had under discussion yesterday. So, I wanted to bring that to the Committee's attention because we have an evolution of process yesterday where we did enter into the record, the information from the Office of Financial Management, the total amount to be financed. Added to that was issue costs and other assorted costs that are, I agree, estimates, but as I understood them to be, those were to be the worst case scenario. And I just wanted to make sure everybody's aware of before we go forward here that that number is \$5.1 million greater. And I would like to have somebody if possible, get me to that number. Is there anybody here that can do that?

Rob Fukai [Department of General Administration] said: Mr. Chairman, Members of the Committee, that number was formulated by the team that was working on the resolution, so I would ask that if there is a team member that can address that, they walk through the derivation of that number. Craig?

Craig Donald [Department of General Administration] said: Um, I, ah, am the source of that number of sixty-three million dollars. Ah, yesterday, the number that I had calculated was 57,409,868 as being the maximum with interest earnings of 518,000 which would be a fifty-seven thousand, nine hundred thousand, fifty-seven million, nine hundred thousand level. Ah, earlier today, ah, I was informed that Mr. Spitzer was suggesting that we put in a not-to-exceed figure, um, in the, um, document, rather than referring to it as the base price plus interest. Um, so, um, in calculating a revised number I came up with about a fifty-eight, five as being the maximum that we could afford and still be within the, the range of error. Um, in terms of the Legislative guidance and things like that. Ah, the, ah, ah, attorneys in discussion and dialogue today suggested that we put in a 25% error factor above the fifty-seven million, five hundred thousand. I thought that was excessive and so I backed it off from 25% down to 10% level which is the fifty-seven, five plus ten percent, comes out to sixty-three, two fifty. I rounded it down to sixty-three million.

Chairman Murphy said: So, was it, was it ...

Governor Locke said: Maybe we should ask Mr. Spitzer then.

Chairman Murphy said: Hugh.

Hugh Spitzer [Preston Gates & Ellis] said: Ah, basically I suggested, I got a call this afternoon from the, or an email from the people who are working with that team and they said 'what kind of a number do we put in' and I said 'put in a high number that is going to be basically the, the most that you can ever conceive of ever having to issue, because otherwise you're going to have to come back to the Committee'. And, this is the number that I got back.

Chairman Murphy said: So, I'm just trying to make sure we're doing this right. I mean I'm not trying to be a pain in the ass.

Governor Locke said: No.

Chairman Murphy said: I was a pain in the ass yesterday, I agree.

Governor Locke said: No you weren't.

Chairman Murphy said: Okay. Thank you. Appreciate that. I was given the impression yesterday ...

Governor Locke said: But I have great confidence in Mr. Spitzer.

Hugh Spitzer said: Yeah, but I ...

Chairman Murphy said: And I do too.

Hugh Spitzer said: But I didn't come up with this number, I just said 'make sure that it's the top' ...

Chairman Murphy said: Make sure that it's big enough. Okay. That's alright.

Hugh Spitzer said: Make sure it's big enough.

Chairman Murphy said: So, I understood that we had a fixed, a fixed dollar amount contract on the building part, so it just works on the building. Is that accurate or not?

Rob Fukai said: We have a fixed lease rate. And we are going through the process of finalizing all of the design and finalizing the contract. Counsel, is that accurate?

Margie Smitch [Attorney General's Office] said: There is a fixed price.

Chairman Murphy said: 'Kay, is that number for the building, forty-four million, one hundred and fifteen thousand?

Margie Smitch said: Yes it is.

Chairman Murphy said: Thank you. There is a price to be paid, additional to the Port of Olympia for some additional land costs. In the paperwork I have here a number of one million, seven hundred and eighty-seven thousand, two hundred and sixty-nine dollars. Is that number accurate?

Rob Fukai said: Yes.

Chairman Murphy said: We also have a furniture and furnishings number of five million dollars. Is that number accurate?

Rob Fukai said: Yes.

Chairman Murphy said: Now, we did make the case yesterday that that ought to be bifurcated away because financing twenty-five years on couches and desks and chairs, probably is not a, a, good idea to do. But, let's assume for the sake of argument that I'll ignore that, okay? We have issue costs, underwriter discount, bond insurance, reserve surety premium and allowance for Cap-I. Cap-I is the need to finance the interest payments in the interim during construction before we have revenue flow from tenants. When we got down to the bottom number, my recollection was, is the total amount to fund was fifty-seven million, nine hundred and twenty-eight thousand, three hundred and twenty-six dollars. Mr. Donald, I think you just agreed with that.

Craig Donald said: Yes.

Chairman Murphy said: So now at this point, we're saying 'well, wait a minute, we need some extra in here'. What do we need it extra for? Buying more furniture?

Rob Fukai said: I believe the team was responding to the recommendation that we consider putting in an amount that would cover us and if something unforeseen occurred. And that's what the discussion, as I understood it ...

Chairman Murphy said: No, and I, I understand where Mr. Spitzer was coming from. And, he, you know, he's trying to cover everybody's, proverbial, to do that. I understand that. Okay, I'm, I'm just trying to see, is, you know, I have a whole lot of lists here of things that make up to the number and, and, we treasurer guys, we kind of like to add them in a line and come down to the bottom and say 'yep, that's the number.' So, there's a resolution before us that has a bigger number and the bigger number is bigger by 5.1 million dollars. We made the argument yesterday that we could do this cheaper if we did a COP. I think we lost that argument. Okay. So now I'm trying to figure out, if you're going to do the deal, let's make sure we do it right. The likelihood of giving an authority to somebody to issue more bonds than they need to issue causes me some grief because the probabilities are they will probably issue the larger number. Now we can all hope that they issue a smaller number, but seems to me, logically, that we ought to say 'well, this is what it costs' and if I go out to buy a piece of property or buy a home, I'm going to have the number drilled. I know what the number is. I presume that, that General Administration's attempting to do the same thing, aren't you?

Rob Fukai said: We haven't changed our numbers.

Chairman Murphy said: Okay.

Rob Fukai said: Ah, one thing I would add, though for the Chairman and the Committee Members, we are analyzing the \$5 million allowance for furniture and we can bifurcate the 63-20 financing to structure it so that there is a better match along the lines that you suggested with the COP and we will do that.

Chairman Murphy said: Do we need to specify that in the resolution?

Governor Locke said: Well, I think they're gonna investigate that and so let's give 'em time to do that.

Chairman Murphy said: Okay, so should we? How do we want to do that? Do we take the number out now?

Governor Locke said: No, I accept what they're doing. It's ah, it may not pencil out. If it pencils out, then they'll, then they won't need as much to ah, in terms of the issuance of bonds. If it does pencil out, then they'll back it out. If it doesn't, they'll keep it in there. But I have great faith that, ah, based on Mr. Fukai's representation they're going to pursue that. That we ought to give them the time to pursue that.

Chairman Murphy said: 'Kay.

Governor Locke said: If you want to make that as part of the record that we expect them to pursue that and report back, I'm fine with that.

Chairman Murphy said: Um, should we do that in the form of a motion to make it in the record?

Governor Locke said: Um, we can, we can, it's part of the minutes. We can just incorporate it as part of the minutes.

Chairman Murphy said: Well, since there hasn't been yet a vote on it in the Committee, there's not clear direction or clear record as to how to proceed and we don't want to have confusion, so.

Governor Locke said: Well, I'll be willing to make the motion after we look at 988, that we urge Department of General Administration to pursue, ah, the, separate financing or bifurcated financing of the furnishings.

Chairman Murphy said: Okay.

Governor Locke said: Okay.

Chairman Murphy said: So, relative to the dollar amount.

Lt. Governor Owen said: They explained it. They, they, it came from your attorney or the Committee's attorney. I mean, he said 'do this', they did it, now it's there, let's move on. I mean there's no other explanation, Mike.

Chairman Murphy said: Mr. Spitzer didn't come up with the number, somebody else did and he said that we need to put these other things in here and, my simple question was, why? Because we had a lengthy discussion yesterday about whose numbers are right and whose numbers are too big, and whose numbers are just right on the money. 'Kay, so, when my recollection says we had a worse case scenario, a worse case scenario apparently just got worse. So, if you'd like, if you want to leave it the sixty-three million, my, my sense is ...

Governor Locke said: I'll leave it at the sixty-three million and then I'll also make a motion that ah, that we direct General Administration to pursue the issue of bifurcating the financing of the furniture, which would then reduce the cost.

Chairman Murphy said: That also includes that overage.

Governor Locke said: Well, I mean, this is the maximum. We'll ask them to report back with respect to ...

Chairman Murphy said: The five million over and the five million furniture are different numbers now.

Governor Locke said: Yes, I understand that. But it's part of the overall costs.

Chairman Murphy said: 'Cause when, when we had a certification from the Office of Financial Management, we started with fifty million, nine hundred thousand. Now we're, now we've got a motion here to go sixty-three. I just want to make sure, you know, everybody's doing this with wide open eyes, going forward. Ah,

Governor Locke said: My eyes are wide open.

Chairman Murphy said: There you go. Delighted to see it. Delighted to see it. Um, it's gonna be pointless to have a motion to amend now.

Governor Locke said: We'll make a separate motion.

Chairman Murphy said: No, to amend ...

Lt. Governor Owen said: He means for him.

Chairman Murphy said: ... the number downward to fifty-eight million.

Governor Locke said: You can make that motion.

Chairman Murphy said: I so move.

Governor Locke said: Is there a second?

Chairman Murphy said: I, I get to say that. Okay. Apparently it dies for lack of a second. Okay, I did my record stuff. There we go. Is there any further discussion on the motion to adopt Resolution 988? Hearing none, all those in favor of the motion signify by saying 'Aye'.

Governor Locke and Lt. Governor Owen said: Aye.

Chairman Murphy said: Ay, ah, no, no. The Ayes appear to have it.

Governor Locke said: Is this the resolution or do you have it?

Chairman Murphy said: Um.

Allan Martin said: I do.

Chairman Murphy said: He's got the resolution.

Allan Martin said: I'll give you the whole document.

Governor Locke said: Well you use red pens too.

Chairman Murphy said: Yes, I do. Trying to decide whether to use the wide one or the narrow one, and I thought I'd use the wide one.

Governor Locke said: I move that we direct General Administration with the respect to the Tumwater Office Building Project described in Resolution 988 to pursue the issue of bifurcated financing, ah, of the furniture and furnishings.

Lt. Governor Owen said: Second.

Chairman Murphy said: Ah ...

Governor Locke said: And to, and to, ah ...

Chairman Murphy said: Look at short term financing?

Governor Locke said: And to, ah, pursue the issue of COPs with respect to that.

Chairman Murphy said: Okay. Ah, just to give clarity, most everyone now in the room knows how we do things here, if it does, if it is a COP, it's unlikely to be financed for twenty-five years. It's more likely to be financed due to fit and useful life of the equipment. So, if everybody's comfortable the sense of the motion, then I think we ought to, record of the motion?

Lt. Governor Owen said: Actually, I thought, I understood that you were going to look at just bifurcating it, I didn't understand that there's any issue of COP or anything else.

Rob Fukai said: Mr. Chairman, Members of the Committee, it's my understanding and this is why we investigate that it's not possible for us to separate out, bifurcate, in the sense of COP in the 63-20.

Governor Locke said: Oh. Okay.

Rob Fukai said: What we believe we can do is take the 63-20 financing itself and separate it into components that would have a shorter term and a longer term.

Governor Locke said: Ahh. Okay.

Rob Fukai said: And that's what that would be, ah, what we would intend to investigate. Thank you.

Governor Locke said: Then I would strike that last part of my motion.

Chairman Murphy said: Could the good Governor restate the motion?

Governor Locke said: Okay. Move that, ah, we direct, ah, or, move that we ask General Administration to investigate the bifurcation of the financing of the furnishings with respect to the Tumwater Office Building referenced in Resolution 988.

Chairman Murphy said: And is it the sense of the motion, to give clarity, that the useful life of the equipment and the length of the financing would be coincident?

Rob Fukai said: Yes.

Governor Locke said: Yes. And that's to pursue it?

Chairman Murphy said: Yes.

Governor Locke said: Pursue it.

Chairman Murphy said: Right. And they can pursue whatever options of financing?

Governor Locke said: Right. Well, I mean, it's up to them to pursue it and to investigate it, with the intent that it's bifurcated financing consistent with the useful life of the furnishings.

Chairman Murphy said: Because the under-lying contract that you entered into with Wright Runstad, does that include the furnishings or ?

Craig Donald said: Not at this point.

Chairman Murphy said: Okay, so we, we gotta furnish the building and after we get it done, so we'd have to, an estimate of about five million bucks to spend on furnishings. We're going to do that in a couple years? Right?

Rob Fukai said: I'm not sure of the exact timing of that, but it's one that would take precedent in the project.

Craig Donald said: Actually, the five million, if you'll notice the sheet that I sent says 'furnishings and tenant improvements,' it's not just pure furniture.

Governor Locke said: So it could be permanent?

Craig Donald said: So, it's, the furnishings portion we can bifurcate, but the tenant improvements will be longer lived.

Chairman Murphy said: Okay, so you, you'll distinguish, I guess the sense of the motion is, and the sense of our bringing it up, was to distinguish between tenant improvement and a furnishing. Right? Okay? As long as everybody's on the same page.

Governor Locke said: Okay.

Chairman Murphy said: So, ah, any further discussion on the motion?

Governor Locke said: No.

Chairman Murphy said: All those in favor, signify by saying ‘Aye.’

Governor Locke, Lt. Governor Owen and Chairman Murphy said: Aye.

Chairman Murphy said: Anyone opposed? So ordered. Mr. Martin, is there anything further to come before us today?

Allan Martin said: No, gentlemen, there is not.

Chairman Murphy said: bang of gavel – adjourned at 5:40 pm

STATE FINANCE COMMITTEE
STATE OF WASHINGTON

Michael J. Murphy, State Treasurer & Chairman

Gary Locke, Governor & Member

Brad Owen, Lieutenant Governor & Member

Allan J. Martin
Deputy State Treasurer & Secretary